

GENERAL FUND FINANCING

County general fund operations are financed with four major types of financing sources: departmental revenue, Proposition 172 revenue, Realignment revenue, and countywide discretionary revenue.

Departmental revenue includes fees, service charges, and state and federal support for programs such as welfare, health care, and behavioral health. Proposition 172 revenue is restricted and is used solely for financing the Sheriff, District Attorney, and Probation departments. Realignment revenue is also restricted and used in financing mental health, social services and health programs within the County.

The balance of departmental costs not funded by departmental revenue, Proposition 172 revenue, and/or Realignment revenue is considered local cost. Local cost is funded by countywide discretionary revenue, which is primarily property tax revenue.

Any countywide discretionary revenue not distributed to departments through their local cost allocation is placed in contingencies. Every year the County of San Bernardino has set aside a prudent dollar amount in contingencies and reserves for two purposes. One is to ensure that the county can accommodate unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the county. The second purpose is to be proactive and set aside funds to meet future known obligations or to build a reserve for large capital projects.

The following sections provide details related to Proposition 172 revenue, Realignment revenue, and countywide discretionary revenue, as they relate to financing general fund departments. Furthermore, detailed information is included on the contributions and uses of county general fund contingencies and reserves for 2007-08 and the proposed contributions and uses of general fund contingencies and reserves for 2008-09.

PROPOSITION 172

Proposition 172 (Prop 172), which became effective January 1, 1994, placed a one-half percent sales tax rate in the state's constitution and required that revenue from the additional one-half percent sales tax be used only for local public safety activities, which include but are not limited to sheriff, police, fire protection, county district attorney, and county corrections. Funding from Prop 172 enabled counties and cities to substantially offset the public safety impacts of property tax losses resulting from the state property tax shift to the Educational Revenue Augmentation Fund (ERAF).

The one-half percent sales tax imposed by Prop 172 is collected by the state and apportioned to each county based on its proportionate share of statewide taxable sales. Pursuant to Government Code 30055, of the total Prop 172 revenue allocated to San Bernardino County, 5% is distributed to cities affected by the property tax shift and 95% remains within the county.

On August 22, 1995, the County of San Bernardino Board of Supervisors approved the recommendation that defined the following departments as the public safety services designated to receive the county's 95% share of Prop 172 revenue, consistent with Government Code Section 30052 and authorized the Auditor/Controller to deposit the county's portion of the Prop 172 revenue as follows:

➤	Sheriff	70.0%
➤	District Attorney	17.5%
➤	Probation	12.5%

Prop 172 revenue currently presents a significant funding source for the Sheriff, District Attorney, and Probation Departments. Each year, as part of the budget development process, projections of Prop 172 growth are developed based on staff analysis of revenue trends and forecasts provided by an outside economist.

Growth in Prop 172 revenue is used first to fund mandated cost increases in these departments, including MOU adjustments, retirement, worker's compensation and insurance. In most years, the mandated cost increases consume the vast majority of Prop 172 revenue growth and all Prop 172 revenue is distributed to the designated departments to maintain current level of service.

On February 13, 2007, the Board of Supervisors approved a policy which requires the county to maintain an appropriation for contingency for Prop 172 funds targeted at no less than 10% of the current year's budgeted Prop 172 revenue. This 10% contingency was created to ensure funding for these public safety departments should the county experience Prop 172 revenue shortfalls in the future. These contingencies will be maintained for each respective department within the Prop 172 restricted general fund.

In some budget years, Prop 172 revenue exceeds budgeted amounts and is considered excess Prop 172 revenue. All excess Prop 172 revenue is set aside in a restricted general fund by department to adhere to the Prop 172 policy.

Currently, the Sheriff Department does not have sufficient Prop 172 revenues to fund their 10% targeted contingency amount of approximately \$10.8 million. The County Administrative Office has revised the Prop 172 five-year plan to account for recent changes in the economy and still provide for the goal of achieving the targeted 10% contingency for the Sheriff Department. The District Attorney and Probation Department have accumulated the necessary funds to meet the 10% contingency requirement.

The chart below illustrates the anticipated beginning and ending fund balance of this restricted general fund for 2008-09 as well as projected revenue, including interest.

	Estimated Beginning Fund Balance	2008-09 Budgeted Revenue	2008-09 Budgeted Departmental Usage	Estimated Ending Fund Balance	10% Contingency Target	Excess/(Shortfall) in Contingency Target
Sheriff	8,207,656	107,853,863	(107,050,000)	9,011,519	10,785,386	(1,773,867)
District Attorney	3,568,273	27,238,465	(27,037,500)	3,769,238	2,723,847	1,045,392
Probation	3,671,383	19,456,047	(19,312,500)	3,814,930	1,945,605	1,869,325
Total	15,447,312	154,548,375	(153,400,000)	16,595,687	15,454,838	1,140,850

Prop 172 budgeted revenue and interest for all three departments in 2008-09 is projected to be \$154.5 million (\$153.4 million in Prop 172 receipts and \$1.1 million in interest revenue). Prop 172 revenue is estimated at 3% growth in 2008-09 from the 2007-08 projection of approximately \$149.0 million. The applicable department's budgeted appropriation in 2008-09 is \$153.4 million. Interest earned will stay in this restricted general fund by department.

REALIGNMENT

In 1991 the state shifted responsibility for a number of mental health, social services, and health programs to counties. This shift, known as Realignment, resulted in the creation of two dedicated funding streams to pay for the shifted services: a ½ cent Sales Tax and 24.33% of Vehicle License Fee (VLF) revenues made available by a change in the depreciation schedule for vehicles. Pursuant to SB 1096, Chapter 21, Statutes of 2004, the Vehicle License Fee was reduced from 2.0% of the market value of a vehicle to .65% of the market value. SB 1096 also changed the percentage of the VLF revenue allocated to Realignment from 24.33% to 74.9%. This change did not result in increased VLF revenues to Realignment, but simply reflects the same funding amount expressed as a percentage of the reduced revenue collected. Each of the three service areas identified was required to have their own separate accounts established and each of those service areas receive a different share of statewide Realignment revenues.

Within the mental health area, the programs for which the county is now responsible are: community-based mental health programs, State Hospital services for county patients, and Institutions for Mental Disease. Within the social services area, the programs for which the county is now responsible are: the county revenue stabilization program and the county justice subvention program. Within the health area, the programs for which the county is now responsible are: AB8 county health services, local health services, medically indigent services, and the county medical services program.

In addition to these program responsibility shifts, a number of programs had changes made to their cost sharing ratios. Below are the programs involved in the cost sharing ratio changes (numbers are shown in percentages in the order of state/county shares of cost). For example, prior to Realignment, Foster Care costs were funded by 95% state resources and 5% county resources. Now Foster Care is funded by 40% state resources and 60% county resources, which is a significant impact to the county.

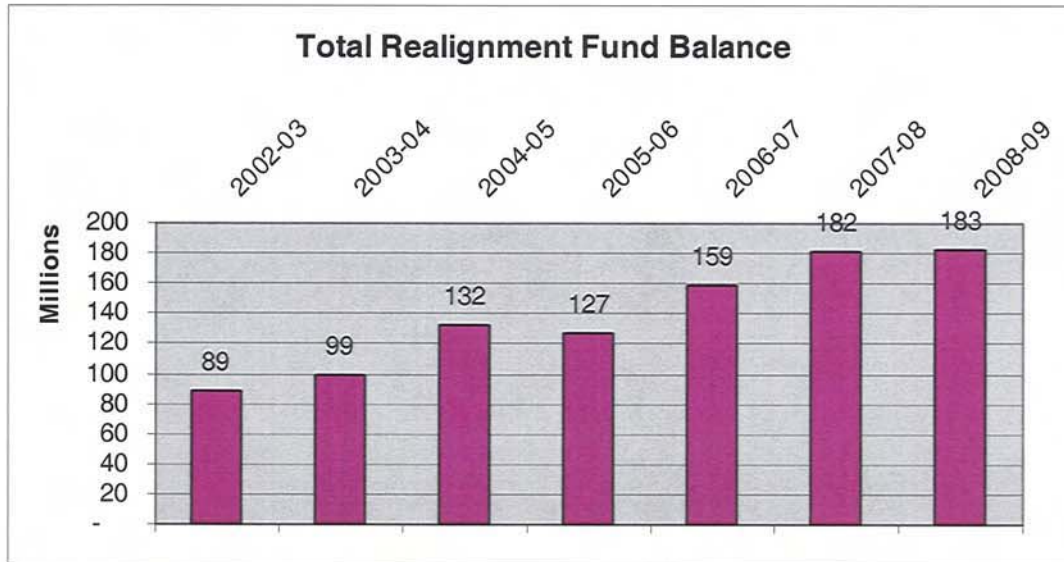
	From State/County	To State/County
Social Services programs:		
Foster Care	95/5	40/60
Child Welfare Services	76/24	70/30
Adoption Assistance	100/0	75/25
CalWORKs	89/11	95/5
County Services Block Grant	84/16	70/30
Greater Avenues for Independence	100/0	70/30
Social Services administration	50/50	70/30
In Home Supportive Services (IHSS)	97/3	65/35
Health programs:		
California Children's Services	75/25	50/50

The Realignment program has some flaws in its design that adversely impact County of San Bernardino revenues. First, San Bernardino County is an "under equity county," meaning that the county receives a lesser share of revenue relative to other counties based on population and estimated poverty population. Revenue distributions among counties were determined by expenditures in the programs that were transferred just prior to the adoption of Realignment. San Bernardino County was under equity in those programs. Realignment did attempt to address the inequity issue, but the effort fell short. The county continues to be under equity at this time and barring any legislative action the amount of inequity will increase over time. As growth occurs in the revenue streams, that incremental new funding is distributed on existing sharing arrangements between the counties. The counties that are already over equity get a higher percentage of the new revenue while those that are under equity get less.

In addition to the under equity issue is the fact that the demand for the services the county is providing and the revenue streams funding them are both sensitive to the economy. When the economy does poorly, demand for

services is high, but revenues under perform. When the economy is doing well, demand for services is reduced, sales taxes and vehicle license fees revenues are high, and growth in these funding streams is experienced. However, Social Services has priority claim on any sales tax growth received. If the growth is sufficient to cover the increasing Social Services caseload costs, then anything remaining is distributed to the Mental Health and Health realignment funds.

The graph below shows the history of fund balance for all Realignment funds.



Fund balances increased significantly from 2003-04 to 2004-05. The increased fund balance in 2004-05 was driven by lower than expected expenditures in Behavioral Health, Probation, ARMC, and Foster Care. The decrease in 2005-06 is the result of a one-time transfer of funds to ARMC for the remodel of the 6th floor of the hospital, offset by significant sales tax growth revenue of \$15.3 million, or 21%, within the Social Services Realignment fund. During 2006-07, significant savings resulted in less than required realignment support for the ARMC debt service and the availability of ARMC construction litigation monies used to fund the budget ARMC projects. This increased fund balance by \$32.0 million for the period ending June 30, 2007.

Budget History for All Realignment Funds				
	ACTUAL 2006-07	BUDGET 2007-08	ESTIMATE 2007-08	PROPOSED 2008-09
Beginning Fund Balance	126,723,986	161,559,557	158,849,697	181,685,051
Revenue	212,540,415	224,888,389	210,944,477	218,518,239
Department Usage	180,414,704	213,757,273	188,109,122	217,147,285
Ending Fund Balance	158,849,697	172,690,673	181,685,051	183,056,005
Change in Fund Balance	32,125,711	11,131,116	22,835,355	1,370,954

For 2007-08, estimated beginning fund balance is \$2.7 million less than budget. This decrease is the result of revenue growth that was anticipated to occur during 2006-07, but never materialized. Additionally, total revenues are anticipated at \$13.9 million less than budget. The 2007-08 budget included growth of 5% and 4% in sales tax and vehicle license fees, respectively. None of this growth is expected, and a 1.2% shortfall in the sales tax revenue base is also anticipated for 2007-08. Offsetting this decrease however are significant savings of \$25.6 million in departmental usage. This decrease is primarily the result of departmental expenditures savings within Behavioral Health resulting from staff vacancies, and one-time expenditures for Arrowhead Regional Medical Center (ARMC) projects not being incurred during 2007-08. These resulted in an anticipated net increase in fund balance of \$9.0 million over budget.

For the 2008-09 budget, revenues reflect a decrease of \$6.4 million over the prior year budget. This decrease results primarily from not realizing any of the growth originally budgeted for 2007-08. Anticipated growth in sales tax of 2.7%, recovery of the base shortfall from prior year, and a 4% growth in vehicle license fees are included for

2008-09. Slightly offsetting this growth are proposed increases in departmental usage of \$3.4 million over the prior year budget, resulting in a net surplus of \$1.4 million in fund balance.

SUMMARY OF REALIGNMENT BUDGET UNITS FOR 2008-09				
	Mental Health	Social Services	Health	Total
Estimated Beginning Fund Balance	49,199,639	74,683,706	57,801,707	181,685,051
Budgeted Revenue	61,599,016	94,672,150	62,247,073	218,518,239
Budgeted Departmental Usage	72,016,836	82,481,141	62,649,308	217,147,285
Budgeted 10% Transfers	-	-	-	-
Estimated Ending Fund Balance	38,781,819	86,874,714	57,399,472	183,056,005
Estimated Change in Fund Balance	(10,417,820)	12,191,009	(402,235)	1,370,954
Estimated Ending Fund Balance	38,781,819	86,874,714	57,399,472	183,056,005
10% Contingency Target	6,159,902	9,467,215	6,224,707	21,851,824
Available Ending Fund Balance	32,621,917	77,407,499	51,174,765	161,204,181

The Realignment budgets do not directly spend funds or provide service. They are strictly financing budgets with the actual expenditures occurring within the operating budget units of the departments that receive Realignment revenue.

The Realignment legislation does allow for some flexibility in usage of funds at the county level. Upon action by the Board of Supervisors, a county can transfer 10% of a given years revenue from one fund to another. San Bernardino County has used the provision in the past to help support either the health or social services programs. The County did not utilize the 10% transfer provision in 2007-08 and is not anticipating usage of the provision in 2008-09. However, in the event that such transfer is needed, Board of Supervisors approval is required.

On February 13, 2007, the Board of Supervisors approved a policy which requires the county to maintain an appropriation for contingency for Realignment funds targeted at no less than 10% of the current year's budgeted Realignment revenue. This 10% contingency was created to ensure funding for the mental health, social services and health budget units should the county experience Realignment revenue shortfalls. All budget units have met their 10% contingency.

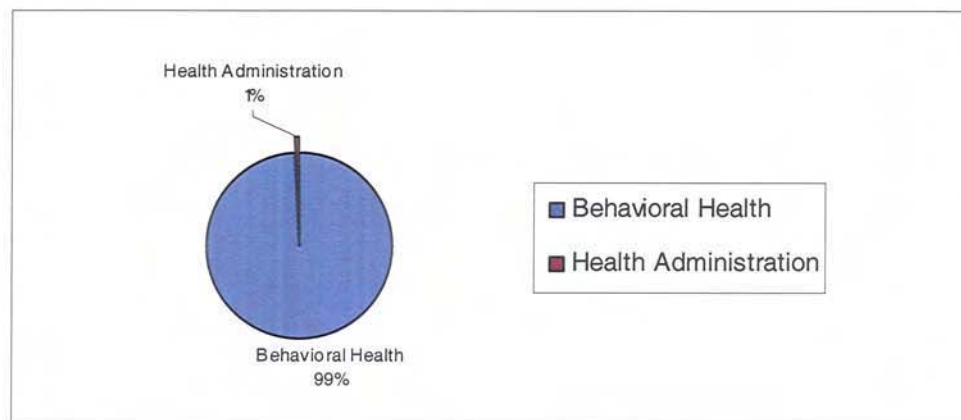
The next three pages contain the breakdown of the three individual Realignment restricted financing funds.

Mental Health				
	ACTUAL 2006-07	BUDGET 2007-08	ESTIMATE 2007-08	PROPOSED 2008-09
Beginning Fund Balance	51,362,384	54,525,520	53,987,682	49,199,639
Revenue	60,274,844	62,142,263	59,889,588	61,599,016
Department Usage	57,649,546	70,584,965	64,677,631	72,016,836
10% Transfers	-	-	-	-
Ending Fund Balance	53,987,682	46,082,818	49,199,639	38,781,819
Change in Fund Balance	2,625,298	(8,442,702)	(4,788,043)	(10,417,820)

In 2006-07, actual revenue of \$60.3 million, offset by actual departmental expenditure of \$57.6 million resulted in an increase in fund balance of \$2.6 million. For 2007-08, the Mental Health fund is anticipated to spend \$4.8 million of fund balance compared to the budgeted \$8.4 million usage. Revenues are anticipated at \$2.3 million less than budget, resulting from lack of growth in all revenues sources, and an anticipated base shortfall in sales tax. Offsetting this decrease however is significant savings in departmental expenditures of \$5.9 million, resulting in an estimated decrease of \$4.8 million in fund balance for the period ending June 30, 2008.

For 2008-09, the Mental Health fund is budgeted to spend \$10.4 million of fund balance. This use is due primarily to uncompensated cost increases related to salaries, contracted services and other services and supplies. Coupled with limited or no growth expected in Mental Health realignment, the ending fund balance within this fund is expected to show continued decline. As such, the Department of Behavioral Health and the County Administrative Office have begun to evaluate the Department's five-year plan to ensure that ongoing departmental usage and ongoing revenues stay in line. Additionally, the Department is beginning to develop plans for increased Medi-Cal and Title XIX EPSDT funding in order to slow the annual draws from the Mental Health Realignment fund.

Breakdown of Department Usage of Mental Health Realignment				
	ACTUAL 2006-07	BUDGET 2007-08	ESTIMATE 2007-08	PROPOSED 2008-09
Behavioral Health	57,154,619	70,019,971	64,178,436	71,532,842
Health Administration	494,927	564,994	499,195	483,994
Total Department Usage	57,649,546	70,584,965	64,677,631	72,016,836



Social Services

	ACTUAL 2006-07	BUDGET 2007-08	ESTIMATE 2007-08	PROPOSED 2008-09
Beginning Fund Balance	35,822,944	58,524,085	56,824,195	74,683,706
Revenue	91,093,748	99,912,421	90,043,566	94,672,150
Department Usage	70,092,497	74,096,500	72,184,055	82,481,141
10% Transfers	-	-	-	-
Ending Fund Balance	56,824,195	84,340,006	74,683,706	86,874,714
Change in Fund Balance	21,001,251	25,815,921	17,859,511	12,191,009

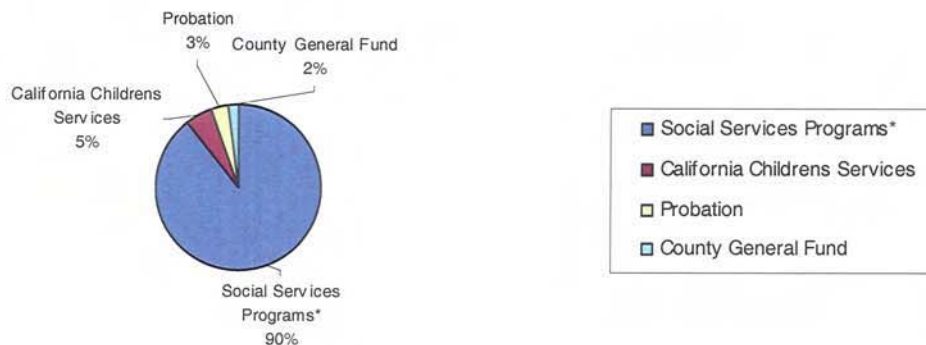
Social Services realignment revenue is composed primarily of sales tax. The split is currently 96% sales tax and 4% vehicle license fees. For 2006-07, actual revenue of \$91.1 million, offset by actual departmental expenditure of \$70.1 million resulted in an increase in fund balance of \$21.0 million. For 2007-08, revenues are estimated at \$9.9 less than budget. The 2007-08 budget included growth of 5% and 4% in sales tax and vehicle license fees, respectively. None of this growth is expected, and a 1.2% shortfall in the sales tax revenue base is also anticipated for 2007-08. Offsetting this decrease is slight savings in departmental expenditures of \$1.9 million.

For 2008-09, ongoing expense and ongoing revenue shows a surplus of \$12.2 million. Despite this surplus, it should be noted that budgeted revenues reflect a decrease of \$5.2 million. Again, this decrease results primarily from the growth included in the 2007-08 budget not being realized, coupled with shortfalls in the sales tax base. This lag in sales tax is continued into 2008-09, which reflects only a 2.7% growth in sales tax. This limited growth also continues the assumption that sales tax collections will again be insufficient to cover annual caseload costs, increasing the cumulative caseload shortfall for the Social Services Realignment fund.

Breakdown of Department Usage of Social Services Realignment

	ACTUAL 2006-07	BUDGET 2007-08	ESTIMATE 2007-08	PROPOSED 2008-09
Social Services Programs*	62,512,385	65,612,683	63,935,952	73,621,778
California Childrens Services	3,120,482	3,984,187	3,748,473	4,359,733
Probation	2,660,630	2,700,630	2,700,630	2,700,630
County General Fund	1,799,000	1,799,000	1,799,000	1,799,000
Total Department Usage	70,092,497	74,096,500	72,184,055	82,481,141

* Soc. Svcs. Programs include: IHSS, Foster Care, Seriously Emotionally Disturbed, and Administrative Claim Matches

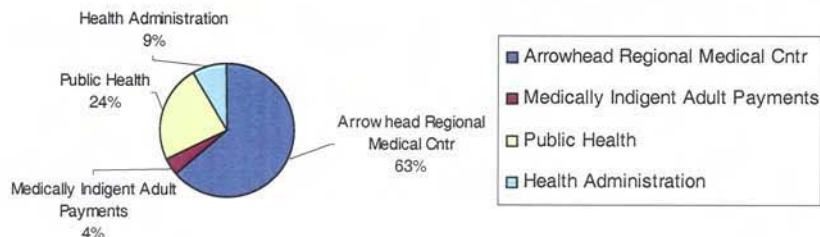


Health				
	ACTUAL 2006-07	BUDGET 2007-08	ESTIMATE 2007-08	PROPOSED 2008-09
Beginning Fund Balance	39,538,657	48,509,952	48,037,820	57,801,707
Revenue	61,171,823	62,833,705	61,011,323	62,247,073
Department Usage	52,672,660	69,075,808	51,247,436	62,649,308
10% Transfers	-	-	-	-
Ending Fund Balance	48,037,820	42,267,849	57,801,707	57,399,472
Change in Fund Balance	8,499,163	(6,242,103)	9,763,887	(402,235)

In 2006-07, actual revenue of \$61.2 million, offset by actual departmental expenditure of \$52.7 million resulted in an increase in fund balance of \$8.5 million. For 2007-08, as with the Mental Health and Social Services Realignment funds, the Health Realignment fund reflects a decrease in revenues. The decrease of \$1.8 million is not as significant within the Health Realignment fund since Health is primarily funded with vehicle license fees at 73%, with the remaining 27% coming from sales tax. This slight decrease is offset by significant departmental expenditures savings, resulting in a surplus of \$9.7 million, versus the budgeted use of \$6.2 million of fund balance. The departmental savings are primarily resulting from repayment of the one-time increased realignment usage by Arrowhead Regional Medical Center (ARMC) to cover an operational shortfall that occurred in 2006-07. Additionally, budgeted transfers in the amount of \$5.1 million to fund one-time projects at ARMC will not occur, and are re-budgeted for 2008-09.

For 2008-09, the Health fund is budgeted to spend \$0.4 million of fund balance. Again, revenues are budgeted to reflect minimal sales tax growth, and slight growth of 4% in vehicle license fees. Offsetting this decrease in revenues is the significant decrease of \$6.4 million in departmental usage. Health Administration usage is reduced significantly to reflect decreased net debt service payments. This decrease is the result of the final maturity of the 1997 Medical Center equipment bonds.

Breakdown of Departmental Usage of Health Realignment				
	ACTUAL 2006-07	BUDGET 2007-08	ESTIMATE 2007-08	PROPOSED 2008-09
Arrowhead Regional Medical Cntr	28,557,396	40,967,620	24,682,702	39,932,918
Medically Indigent Adult Payments	2,550,000	2,550,000	2,550,000	2,550,000
Public Health	13,793,258	14,164,292	13,943,363	14,729,074
Health Administration	7,772,007	11,393,897	10,071,371	5,437,316
Total Department Usage	52,672,660	69,075,809	51,247,436	62,649,308

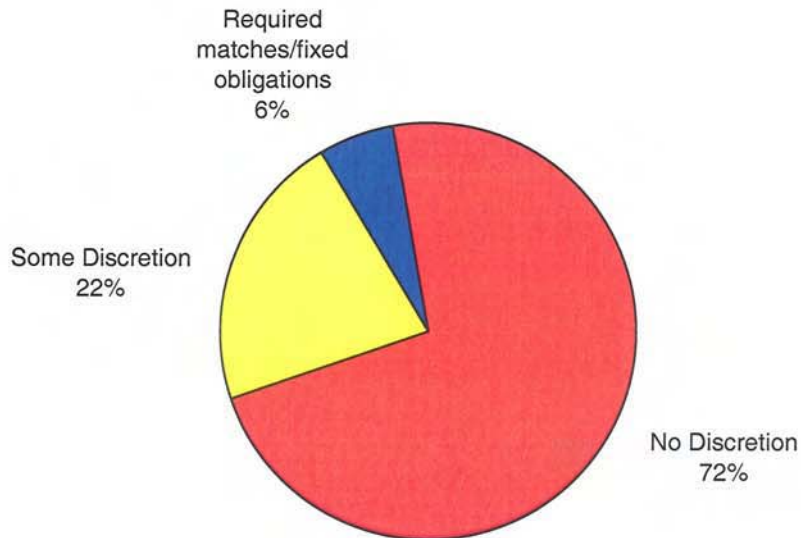


Budgetary Note: Financial information presented in this Realignment budget section is consistent with state reporting requirements for the Realignment funds. The state's reporting requirements are not consistent with the county's implementation of GASB 34 as it relates to revenue accrual. As such, within the county's accounting system, an adjustment will be made to show the correct revenues in accordance with the county's accrual procedures. This is a revenue timing issue only as a result of delays by the state in distributing sales tax growth revenue.

COUNTYWIDE DISCRETIONARY REVENUE

The entire general fund budget including operating transfers is \$2.4 billion, however, the Board of Supervisors has no discretion on \$1.7 billion of this amount as seen in this pie chart.

2008-09 Proposed Budget General Fund Spending

**SPENDING WHERE THE BOARD HAS NO DISCRETION. INCLUDES:**

1,702,555,912

Welfare costs reimbursed by state and federal monies (\$806.2 million)

Other program costs funded by program revenues such as user fees (\$896.3 million)

REQUIRED HEALTH AND WELFARE MATCHES AND OTHER FIXED OBLIGATIONS:

139,761,482

SPENDING WHERE THE BOARD HAS SOME DISCRETION. INCLUDES:

509,560,498

Reserve Contributions (\$1.0 million)

Contingencies Contributions (\$63.7 million)

Law and justice program costs funded by local revenues (\$280.5 million)

All other program costs funded by local revenues (\$164.3 million)

TOTAL:

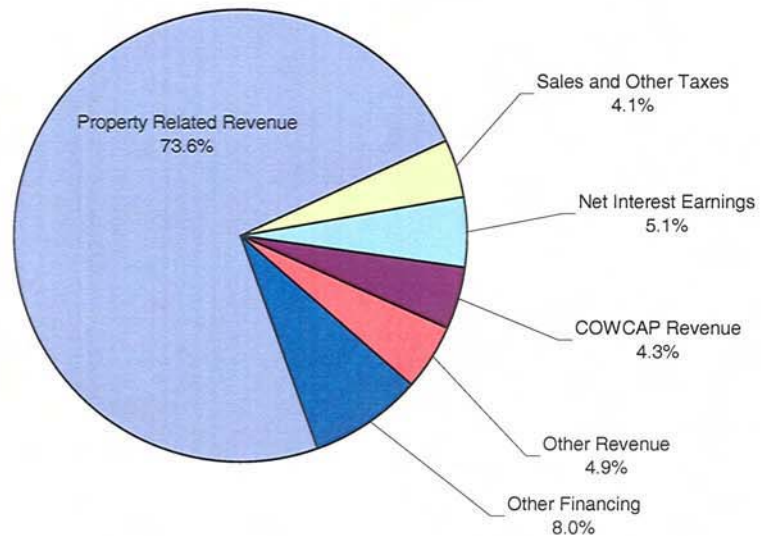
\$2,351,877,892

The Board of Supervisors has authority over the countywide discretionary revenue, which totals \$649,321,980. This countywide discretionary revenue is first obligated to pay for the required health and welfare matches and other fixed obligations, which total \$139,761,482. The remaining amount of \$509,560,498 is available for the Board's discretion and finances departmental budgets' local cost.



Shown below are the sources of the countywide discretionary revenue proposed for 2008-09, which total \$649,321,980:

Discretionary Revenue by Category 2008-09 Proposed Budget



Other Revenue Includes: Property Tax Admin Revenue, Other State and Federal Aid, Recording Fee Revenue, Treasury Management Pool Fees, and Other Revenue.

Other Financing Includes: Fund Balance and Operating Transfers.

COUNTYWIDE DISCRETIONARY REVENUE WHICH PAY FOR GENERAL FUND LOCAL COST

	Restated 2006-07 Final Budget	Restated 2007-08 Final Budget	2007-08 Estimate	2008-09 Proposed Budget
Countywide Discretionary Revenue				
Property Related Revenue:				
Current Secured, Unsecured, Unitary	186,170,860	206,738,207	215,919,329	222,083,877
VLF/Property Tax Swap	187,409,286	208,146,542	215,060,239	221,512,046
Supplemental Property Tax	14,000,000	14,000,000	22,000,000	14,000,000
Property Transfer Tax	19,936,370	15,000,000	8,500,000	8,500,000
Sales Tax/Property Tax Swap	6,558,303	6,447,235	6,106,555	5,771,432
Penalty on Current Taxes	1,938,095	2,272,832	2,272,832	2,272,832
Prior Property Taxes, Penalties and Interest	3,806,646	3,860,659	3,860,659	3,860,659
Total Property Related Revenue	419,819,560	456,465,475	473,719,614	478,000,846
Sales and Other Taxes:				
Sales and Use Tax	16,517,373	16,432,119	16,558,392	17,005,469
Franchise Fees	6,715,000	7,120,050	7,095,000	7,493,050
Hotel/Motel Tax	1,176,978	1,200,000	1,400,000	1,400,000
Other Taxes	700,000	750,000	790,000	790,000
Total Sales and Other Taxes	25,109,351	25,502,169	25,843,392	26,688,519
Net Interest Earnings	23,154,000	31,000,000	33,000,000	33,000,000
COWCAP Revenue	20,739,704	25,196,750	24,597,730	27,958,508
Property Tax Admin Revenue	12,773,384	13,800,000	17,800,000	17,800,000
Recording Fee Revenue	11,167,902	8,616,493	5,200,000	5,200,000
State and Federal Aid	3,647,156	3,660,738	3,607,465	3,649,060
Booking Fee Revenue	2,500,000	3,000,000	473,171	-
Treasury Pool Management Fees	2,219,195	2,503,298	2,503,298	2,609,234
Other Revenue	3,430,000	2,430,000	8,873,690	2,430,000
Total Countywide Discretionary Revenue	524,560,252	572,174,923	595,618,360	597,336,167
Other Financing Sources				
Fund Balance, beginning	100,698,815	56,425,431	56,425,431	32,700,000
Reimbursements	583,586	-	-	-
Use of Reserves	6,063,708	2,688,000	2,893,000	-
Operating Transfers In	32,116,449	19,105,406	19,105,406	19,285,813
Total Other Financing Sources	139,462,558	78,218,837	78,423,837	51,985,813
Total Countywide Discretionary Revenue and Other Financing Sources	664,022,810	650,393,760	674,042,197	649,321,980

The restatement of the 2006-07 and 2007-08 revenue numbers is due to the reclassification of Property Transfer Tax and Sales Tax / Property Tax Swap into the Property Related Revenue category from the Sales and Other Taxes category.

The 2008-09 general fund financing includes Countywide Discretionary Revenue of \$597.3 million and Other Financing Sources of \$52.0 million.

Countywide Discretionary Revenues

Secured Property Tax

Secured Property Tax Revenue makes up \$200.8 million of the \$222.1 million in the 2008-09 "Current Secured, Unsecured, Unitary" budgeted revenue number. This budgeted amount is projected using an estimated 3.0% increase in secured assessed valuation for 2008-09 translated to a 3.0% increase in secured property tax revenue for the county general fund. This increase is based on growth estimates provided by the County Assessor's office. This growth rate is in sharp contrast to the double digit growth rates experienced in recent years and is attributable to a sharp decline in the number of home sales, median prices, increases in foreclosure activity and reductions in the fair market value of residential properties.



Secured property tax revenue is normally budgeted at a slightly lower growth rate than secured assessed valuation for the reasons noted below. For 2008-09 the budgeted growth in secured property tax revenues is equal to the estimated growth in assessed valuation.

The table below compares the increase in secured assessed valuation for the last six years to the increase in secured property tax revenue of the county general fund (adjusted for one-time revenue changes such as ERAF III).

Fiscal Year	Countywide Locally Assessed Secured AV	Percent Increase	County General Fund Secured Revenue - Adjusted	Percent Increase
2002-03	85,194,704,924	8.07%	103,724,492	7.58%
2003-04	92,745,938,042	8.86%	114,005,166	9.91%
2004-05	103,488,544,441	11.58%	127,110,535	11.50%
2005-06	118,871,872,729	14.86%	143,559,894	12.94%
2006-07	141,392,463,582	18.95%	168,345,431	17.26%
2007-08	163,804,951,657	15.85%		

As is evident in the table, county general fund revenue does not usually increase at the same rate as secured assessed valuation. This difference is not due to delinquent tax payments. The County participates in the Teeter method of property tax allocation for secured property tax revenues. Therefore the County, and all other agencies participating in the Teeter program, receives 100% of the secured property tax revenue to which it is entitled, regardless of payment status. Instead, the mismatch between assessed valuation growth and revenue growth can be caused, in part, by assessed valuations increasing at a different rate in cities than in the unincorporated areas of the County (where the County gets a larger share of the property tax revenue). Other reasons for this mismatch include:

Redevelopment Agency Allocations:

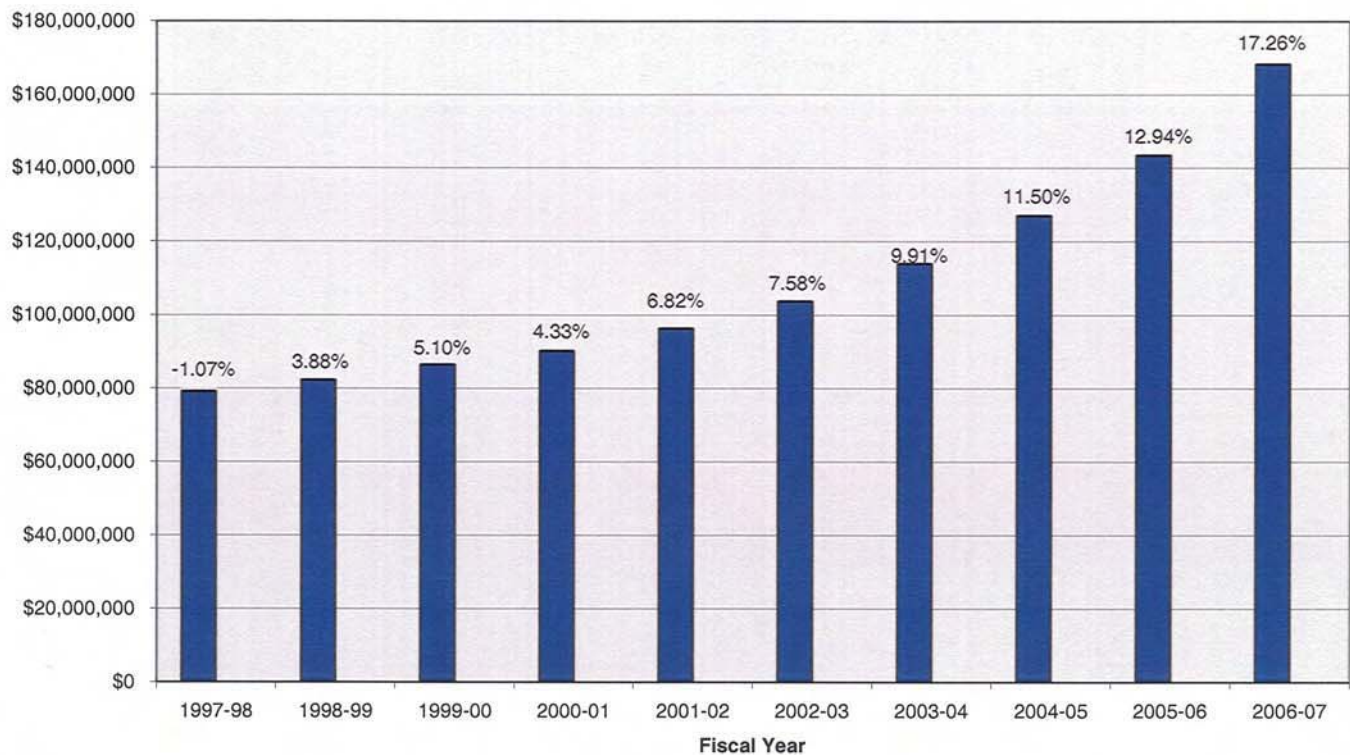
When a redevelopment project area is created, future increases in property tax revenue are allocated to the Redevelopment Agency, instead of being apportioned through the normal allocation process to the County, Cities, Schools and Special Districts. This results in a lowering of the County's percentage share of the total revenues generated by the secured property in the County. In some instances, this reduction in property tax revenue is partially offset by a pass through of a certain amount of these revenues back from the RDA to the County (and the other affected entities).

Incorporations/Annexations:

When a new city is created in the County, or when an existing city annexes additional land into its boundaries, the City takes on certain responsibilities for that geographic area that were previously the responsibility of the County and Special Districts. To fund this shift in responsibilities, the County, and any affected Special Districts, will have their share of property tax revenue reduced in favor of the City.

The following chart presents the most recent ten year trend of secured property tax revenue. Revenue has been adjusted for one-time revenue changes such as ERAF III.

**SECURED PROPERTY TAXES - ADJUSTED
TEN YEAR TREND
Dollars and Percent Change**



VLF/Property Tax Swap

Historically, approximately three-fourths of Vehicle License Fee (VLF) revenue was allocated to cities and counties as general purpose financing. Beginning in Fiscal Year 1998-99, the State reduced the VLF payment required from vehicle owners. However, the State made up the revenue impact of the VLF rate reductions with State general fund revenue (the 'VLF Backfill').

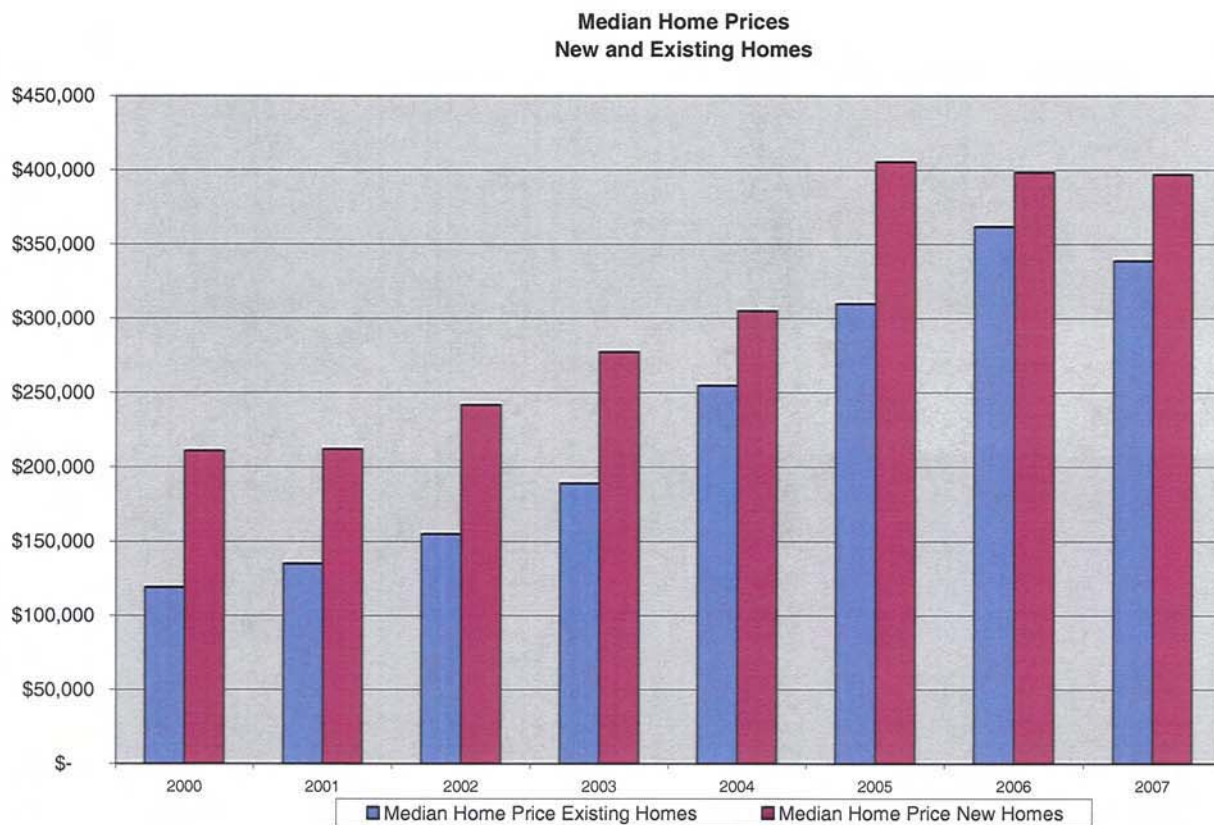
The VLF Backfill was eliminated in the 2004-05 State budget. In that year, the VLF Backfill to cities and counties was permanently replaced with an equivalent increase in property tax revenues (VLF/Property Tax Swap revenues). This increase was funded by decreases in property tax revenues allocated to schools and community colleges.

For 2004-05, the State established the base amount of the VLF/Property Tax Swap. The base is equal to the amount of VLF backfill that the counties and cities would have received in 2004-05, calculated using actual VLF receipt amounts for 2004-05. For years beginning in 2005-06, the VLF/Property Tax Swap amount is calculated using the prior year VLF/Property Tax Swap amount increased by a rate equal to the growth in assessed valuation. This growth rate includes both secured and unsecured assessed valuation, but excludes the growth rate of unitary valuations. For 2008-09, it is projected that this revenue will increase 3% over 2007-08 estimated revenue.

Supplemental Property Tax

Supplemental Property Tax payments are required from property owners when there is an increase in the assessed valuation of their property after the property tax bill for that year has been issued. Generally there are two types of events that will require a supplemental property tax payment: a change in ownership or the completion of new construction. As a result, when property values have been increasing and sales activity is high, there will be an increase in the number and dollar amount of supplemental property tax bills, which will result in increased supplemental property tax revenue to the County. The opposite is true when home prices and sales volume is declining. In fact, when the sales price of a property is lower than the current assessed value of the property, a refund may be due to the property owner.

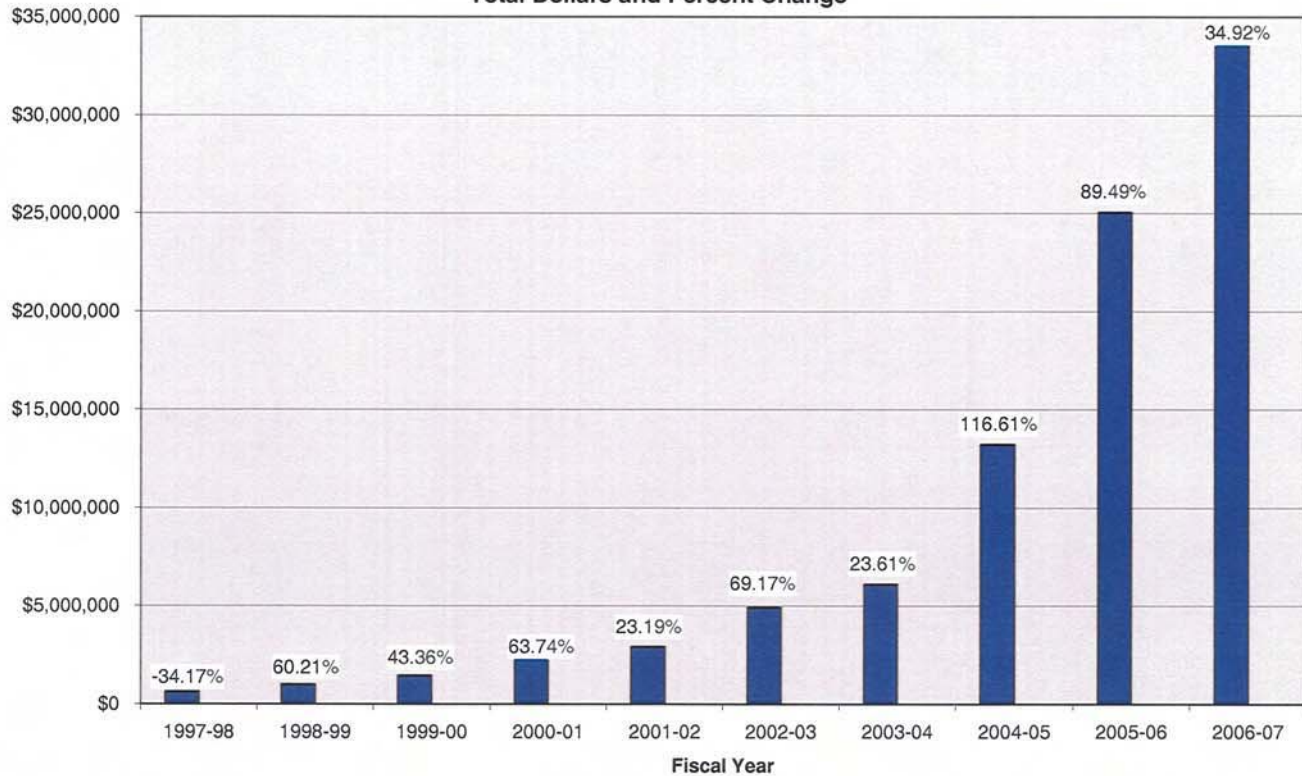
Through 2005, the County experienced dramatic increases in housing sales and housing prices. However, as shown in the chart below, the median home prices for new homes began to decline in 2006 followed by a decline in 2007 of median home prices for both existing and new homes. The following chart illustrates the annual change in housing prices for both new and existing homes.



In addition to the reduction in median prices, the number of home sales declined from 44,764 in 2006 to 24,035 in 2007, a decrease of 46.3%. Sales figures continue to drop and are down 45% in the first quarter of 2008 as compared to the first quarter of 2007.

In recent years the county has seen a dramatic rise in supplemental property tax revenue related to a strong housing market. Because the collection of these revenues may not occur for one to two years after the sale of the property, supplemental property tax revenue will generally lag the reality in the housing market by at least a year.

**SUPPLEMENTAL PROPERTY TAXES
TEN YEAR TREND
Total Dollars and Percent Change**

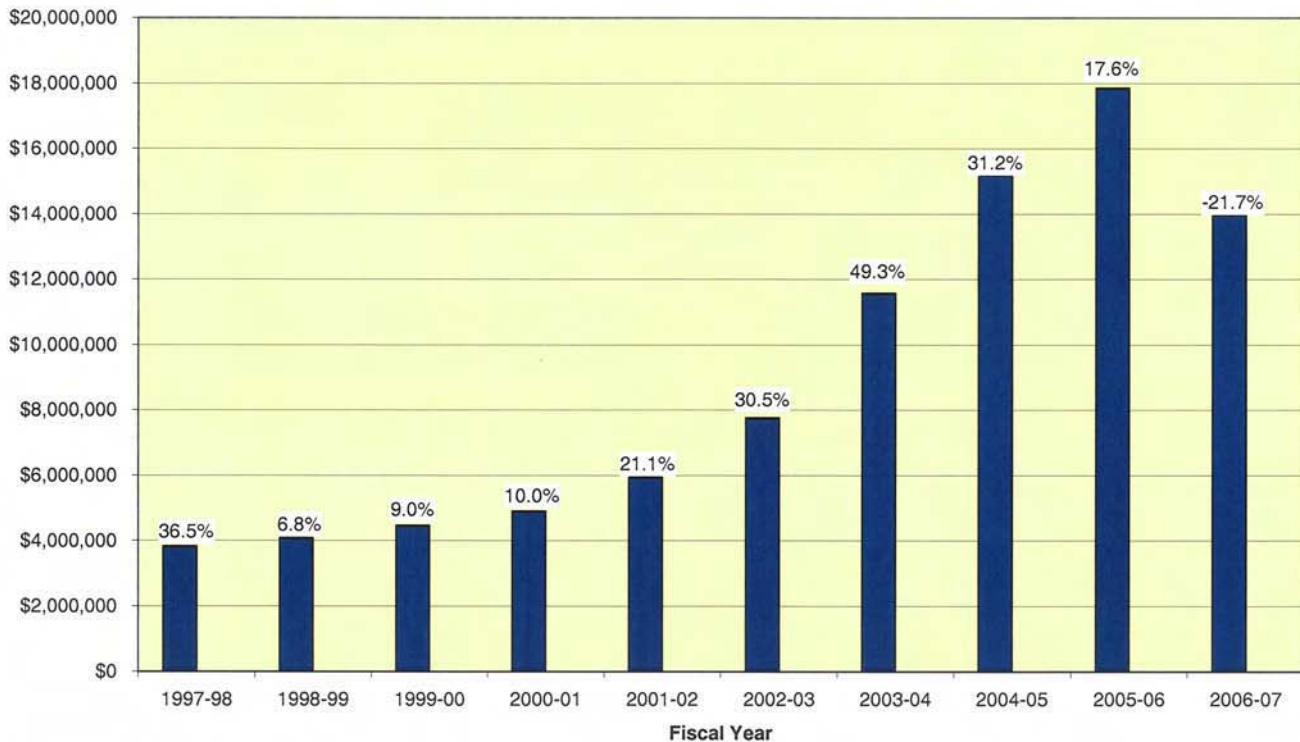


The County anticipated the housing slowdown in the 2006-07 final budget by budgeting a conservative \$14.0 million for supplemental property taxes. Although actual revenues for 2006-07 totaled \$33.8 million, and revenues for 2007-08 are estimated at \$22 million, the proposed budget for 2008-09 remains at \$14.0 million. This budgeted amount is the current estimate of the sustainable level of this revenue for the near future.

Property Transfer Tax

The Property Transfer Tax is collected when any lands, tenements, or other realty sold within the County is granted, assigned, transferred, or otherwise conveyed to or vested in the purchaser. The tax is imposed when the value of the property exceeds \$100. The tax rate is \$ 0.55 for each \$500 of property value. For sales in the unincorporated areas of the County, the County receives 100% of the tax. For sales in cities, the County receives 50% of the tax. This revenue has increased dramatically over recent years due to the high volume of housing sales and increasing housing prices, but is now declining due to the downturn in the housing market. The following chart presents the most recent ten year trend of property transfer tax revenue.

**PROPERTY TRANSFER TAX
TEN YEAR TREND
Total Dollars and Percent Change**



This revenue stream is dependent on the combination of sales prices and the number of sales transactions, and is expected to decrease further in 2007-08 in reaction to the decline in the housing market. Receipts for 2006-07 totaled \$14.0 million, a \$3.9 million decrease from the prior year. Estimates for 2007-08 anticipate an additional 46% decrease in this revenue stream which is expected to total \$8.5 million by year end. The 2008-09 budget anticipates that this revenue stream will stabilize and is projected at \$8.5 million.

Sales Tax/Property Tax Swap

Effective with the fiscal year that began on July 1, 2004, the State changed the way sales tax revenue is distributed to counties and cities. Previously, counties and cities received 1% of the State's base 7.25% sales tax rate. Pursuant to new provisions enacted by the legislature, this 1% share of sales tax was reduced by .25%, to .75%. The additional .25% in sales tax revenue is redirected to the State to be used to fund debt service on the California Economic Recovery Bonds, which were approved by voters as Proposition 57. In return, counties and cities receive additional property tax revenue in an amount equal to the .25% sales tax revenues forgone, funded by reducing the schools share of property tax revenue. The state general fund then makes up the loss of property tax revenue to the schools. This change is referred to as the 'Triple Flip'. This Triple Flip will continue until the California Economic Recovery Bonds are paid.

The Triple Flip was designed to replace sales tax revenue on a dollar for dollar basis with property tax revenue. In practice, the additional property tax revenue paid to the counties and cities each year is based on an estimate of the agencies' sales tax revenue for the year plus a 'true-up' from the prior year. This true-up represents the difference between the additional property tax revenue paid to the local agency and the actual amount of sales tax revenue (the .25%) lost by the agency. The amount budgeted for the Triple Flip in 2008-09 anticipates a negative true-up adjustment in 2008-09 due to the current economy.

Sales and Use Tax

Countywide discretionary revenue includes .75% of the 7.75% sales tax rate charged on purchases made in the unincorporated areas of the County.

When preparing the annual budget, the County projects future sales tax revenue based on data provided by a local economist. For 2008-09, the economist has projected total sales tax revenues in the unincorporated area of \$19.1 million (after adjusting for the Triple Flip), which reflects an increase of 2.7%. The County has budgeted \$17.0 million. The major reasons for this difference include:

Sales Tax Sharing Agreement with the City of Redlands

In August of 2003, the County entered into a sales tax sharing agreement with the City of Redlands. Under the terms of this agreement, the City of Redlands provides government services to an unincorporated area of the County, and in return the County pays the city a percentage of the sales tax revenue generated in that geographical area. This geographic area has and continues to add, numerous retail establishments and generates a considerable amount of sales tax revenue. Under the terms of the sales tax sharing agreement, the County currently pays the City of Redlands 90% of the County's discretionary sales tax revenue generated in this area.

Potential Annexations and Incorporations

Based on recent estimates, and adjusted for recent annexations, approximately 47% of the County's discretionary sales tax revenue is generated in the unincorporated portion of the spheres of influence of the 24 cities that are within the county's boundaries. A sphere of influence is a 'planning boundary within which a city or district is expected to grow into over time'. Therefore, the areas within these spheres are likely to be annexed, and once annexed, the discretionary sales tax revenue generated in that area will go to the city instead of the County. The County would also lose sales tax revenue if a community in the unincorporated area of the County decided to create a new city (incorporate).

Net Interest Earnings

Net interest earnings for 2008-09 are projected at \$33.0 million. This is the amount that is considered sustainable in the near future.

COWCAP (County-Wide Cost Allocation Plan) Revenue

COWCAP revenue is reimbursement for overhead/indirect costs incurred by the general fund. Reimbursements are received from various state and federal grant programs (that permit such reimbursement) and fee supported general fund departments and taxing entities such as the library and Board-governed special districts. The budgeted COWCAP Revenue amount reflects the recovered allowable costs included in the 2008-09 County-Wide Cost Allocation Plan (COWCAP) published by the Auditor/Controller-Recorder.

Property Tax Admin Revenue

Property Tax Administration revenue consists of:

- SB 813 cost reimbursement, which represents allowable charges for administration and operation of the supplemental property tax program. This reimbursement is tied directly to the performance of supplemental property tax revenue.
- The property tax administrative fee, which the legislature provided to allow counties to recover the cost of the property assessment and tax collection process from certain other local jurisdictions. This revenue is tied directly to the cost of that collection effort.

Recording Fee Revenue

The Recorder's Division of the County's Auditor/Controller-Recorder's Office collects certain fees for the official recording of documents. In previous fiscal years, this revenue was budgeted in the Auditor/Controller-Recorder's budget unit. Due to the unpredictable nature of the recording fee revenue and the County Administrative Office's concern for stabilization of departmental financing, the Board approved placing the recording fee revenue in the countywide discretionary revenue in 2006-07.

State and Federal Aid

State and Federal aid consists of a payment from the welfare realignment trust fund, which replaced the state revenue stabilization program, and SB90 reimbursements from the state. It also includes revenues received from the Federal government's Payment in Lieu of Taxes (PILT) program. Under current law, local governments are compensated through various programs for losses to their tax bases due to the presence of most federally owned land. PILT for the county in 2008-09 is expected to grow slightly over the 2007-08 year end estimate.

Booking Fee Revenue

New legislation (AB 1805) in 2007-08 replaced counties' ability to assess booking fees. This legislation created a Local Detention Facility Revenue Account to be funded by a state allocation and to be used exclusively for the construction or operation of jails. Per the legislation, the ability to charge booking fees to cities is retained if the state does not appropriate \$35.0 million in funding under AB 1805. In addition, the legislation allowed for a Jail Access Fee for specified non-felony offenses when a jurisdiction exceeds a three-year average number of bookings for those offenses.

Currently, the Governor's 2008-09 Proposed State Budget includes an appropriation of \$31.5 million for this purpose. Of that amount, San Bernardino County's share of the state allocation is estimated at \$2,482,000. This new revenue stream is placed in the newly created Sheriff's Local Detention Facility Revenue budget unit as it must be used for the purpose stated above. Since the amount appropriated by the state is under \$35.0 million, the County would have the authority to retain a maximum booking fee in an amount designated to recoup the portion of funds under-appropriated by the state to the County. The amount under-appropriated is estimated at \$276,000. Countywide discretionary revenue has not included this amount due to the uncertainty of the state budget.

Treasury Pool Management Fees

Beginning in 2006-07, countywide discretionary revenue includes cost reimbursement for the management of the County's investment pool, which is projected to total \$2.6 million in 2008-09. In prior fiscal years, this revenue was budgeted in the Treasurer/Tax Collector's budget unit.

Other Revenue

Other revenue includes overhead charges recovered through city law enforcement contracts with the Sheriff's Department, voided warrants issued by the county, projected transfers of unclaimed property tax refunds to the general fund, the county share of vehicle code violation revenue, and other miscellaneous revenues.

Other Financing Sources

Fund Balance and Reimbursements

The 2007-08 estimated year-end fund balance for the general fund is \$32.7 million.

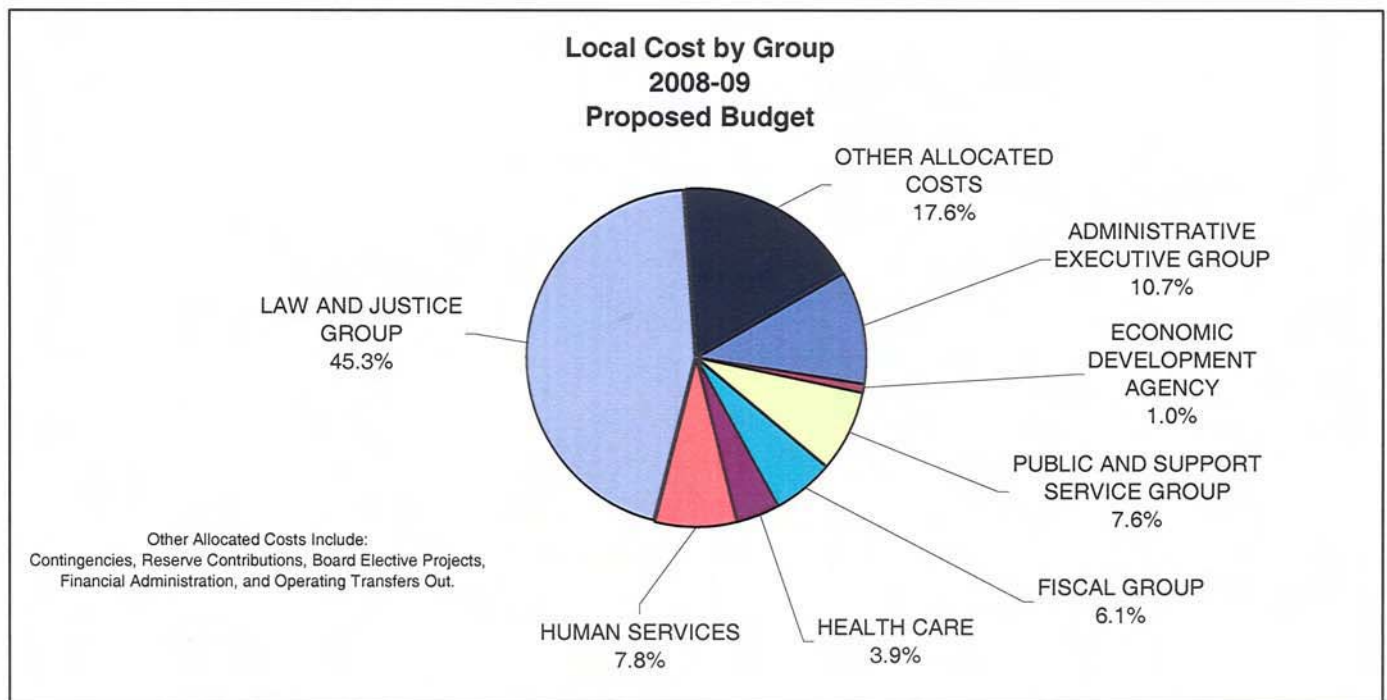
Use of Reserves

The 2008-09 budget anticipates no draws on reserves.

Operating Transfers In

Operating transfers in include transfers from the Courthouse and Criminal Justice Construction funds of \$4.1 million to finance debt service on the Foothill Law and Justice Center, and \$15.0 million of tobacco settlement funds to provide funding for debt service on the Arrowhead Regional Medical Center.

Countywide discretionary revenue is allocated as local cost to various general fund departments within the county. The pie chart below shows what percentage of the local cost is allocated to each of the groups.



The schedule on the following page shows a comparison of prior year local cost and current year local cost by department. This schedule also includes appropriation and revenue, including operating transfers, which are mechanisms to move financing between the various county budget units. Operating transfers are presented in the following chart because the intended purpose is to provide a complete picture of the department's appropriation and revenue. Operating transfers are excluded from the countywide appropriation and revenue summaries presented in the County Budget Summary section, as their inclusion would overstate countywide appropriation and revenue on a consolidated basis.

Department Title	2007-08 Final Budget:			2008-09 Proposed Budget:			Change Between 2007-08 Final & 2008-09 Proposed:		
	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost
BOARD OF SUPERVISORS (ALL DISTRICTS)	6,879,883	-	6,879,883	6,975,899	-	6,975,899	96,016	-	96,016
BOARD OF SUPERVISORS - LEGISLATION	898,405	-	898,405	902,075	-	902,075	3,670	-	3,670
CLERK OF THE BOARD	1,492,677	135,287	1,357,390	1,558,975	126,665	1,432,310	66,298	(8,622)	74,920
COUNTY ADMINISTRATIVE OFFICE	5,299,244	-	5,299,244	5,408,994	-	5,408,994	109,750	-	109,750
COUNTY ADMINISTRATIVE OFFICE - FRANCHISE ADMIN	304,387	-	304,387	-	-	-	(304,387)	-	(304,387)
COUNTY ADMINISTRATIVE OFFICE - LITIGATION	388,681	-	388,681	388,681	-	388,681	-	-	-
COUNTY ADMINISTRATIVE OFFICE - JOINT POWERS LEASES	21,437,356	-	21,437,356	20,612,356	-	20,612,356	(825,000)	-	(825,000)
COUNTY COUNSEL	9,910,398	4,454,209	5,456,729	10,600,311	5,080,585	5,519,726	689,373	626,376	62,997
HUMAN RESOURCES	7,491,561	373,794	7,117,767	7,205,212	343,750	6,861,462	(286,349)	(30,044)	(256,305)
HUMAN RESOURCES-EMPLOYEE HEALTH AND WELLNESS	1,048,542	732,542	316,000	1,375,368	1,059,368	316,000	326,826	326,826	-
HUMAN RESOURCES-UNEMPLOYMENT INSURANCE	4,000,500	-	4,000,500	4,000,500	-	4,000,500	-	-	-
INFORMATION SERVICES-APPLICATIONS DEVELOPMENT	16,791,086	4,693,984	12,097,102	16,553,025	5,089,326	11,463,699	(238,061)	395,342	(633,403)
PURCHASING	1,307,588	50,000	1,257,588	1,512,604	259,964	1,252,640	205,016	209,964	(4,948)
LOCAL AGENCY FORMATION COMMISSION	338,215	-	338,215	350,000	-	350,000	11,785	-	11,785
COUNTY SCHOOLS	4,308,605	-	4,308,605	4,308,605	-	4,308,605	-	-	-
ADMIN/EXECUTIVE GROUP SUBTOTAL:	81,897,668	10,438,816	71,457,852	81,752,605	11,959,658	69,792,947	(145,063)	1,519,842	(1,664,905)
ECONOMIC DEVELOPMENT	7,866,652	604,000	7,262,652	6,580,611	80,000	6,500,611	(1,286,041)	(524,000)	(762,041)
ECONOMIC DEVELOPMENT AGENCY SUBTOTAL:	7,866,652	604,000	7,262,652	6,580,611	80,000	6,500,611	(1,286,041)	(524,000)	(762,041)
ASSESSOR	18,354,905	1,385,000	16,969,905	19,954,395	925,000	19,029,395	1,599,490	(460,000)	2,059,490
AUDITOR-CONTROLLER/RECORDER	19,357,354	6,102,260	13,255,094	19,967,543	6,749,619	13,217,924	610,169	647,359	(37,170)
TREASURER-TAX COLLECTOR/PUBLIC ADMINISTRATOR	21,653,245	14,201,687	7,451,558	20,942,344	13,758,078	7,184,266	(710,901)	(443,609)	(267,292)
FISCAL GROUP SUBTOTAL:	59,365,504	21,688,947	37,676,557	60,864,282	21,432,697	39,431,585	1,498,778	(256,250)	1,755,028
HEALTH CARE	159,507,612	144,507,612	15,000,000	64,839,387	49,839,387	15,000,000	(94,668,225)	(94,668,225)	-
BEHAVIORAL HEALTH	178,566,791	176,724,038	1,842,753	201,847,119	200,004,366	1,842,753	23,280,328	23,280,328	-
BEHAVIORAL HEALTH - ALCOHOL AND DRUG SERVICES	22,108,176	21,958,718	149,458	23,717,776	23,568,318	149,458	1,609,600	1,609,600	-
PUBLIC HEALTH	86,748,420	82,052,587	4,695,833	83,073,662	79,501,393	3,572,269	(3,674,758)	(2,551,194)	(1,123,564)
PUBLIC HEALTH - CALIFORNIA CHILDREN'S SERVICES	19,246,486	15,262,299	3,984,187	20,145,914	15,786,181	4,359,733	899,428	523,882	375,546
PUBLIC HEALTH - INDIGENT AMBULANCE	472,501	-	472,501	472,501	-	472,501	-	-	-
HEALTH CARE SUBTOTAL:	466,649,986	440,505,254	26,144,732	394,096,359	368,699,645	25,396,714	(72,553,627)	(71,805,609)	(748,018)
AGING AND ADULT SERVICES	11,317,320	10,115,916	1,201,404	10,549,692	9,317,968	1,231,704	(767,628)	(797,928)	30,300
AGING AND ADULT SERVICES - PUBLIC GUARDIAN	1,124,837	343,018	781,819	1,267,280	488,875	778,385	142,423	145,857	(3,434)
CHILD SUPPORT SERVICES	39,806,364	39,806,364	-	41,428,199	41,428,199	-	1,621,835	1,621,835	-
HUMAN SERVICES - ADMINISTRATIVE CLAIM	359,284,134	335,844,708	23,439,426	361,718,517	339,444,017	22,274,500	2,434,383	3,599,309	(1,164,926)
CHILD ABUSE / DOMESTIC VIOLENCE	1,970,307	1,970,307	-	1,622,818	1,622,818	-	(347,489)	(347,489)	-
ENTITLEMENT PAYMENTS (CHILD CARE)	85,905,228	85,905,228	-	85,905,228	85,905,228	-	-	-	-
OUT OF HOME CHILD CARE	777,722	-	777,722	859,415	-	859,415	81,693	-	81,693
AID TO ADOPTIVE CHILDREN	39,467,626	37,580,473	1,887,153	42,543,049	40,655,896	1,887,153	3,075,423	3,075,423	-
AFDC-FOSTER CARE	85,012,850	70,736,762	14,276,088	94,387,086	80,826,584	13,560,502	9,374,236	10,089,822	(715,586)
REFUGEE CASH ASSISTANCE	100,000	-	100,000	100,000	-	100,000	-	-	-
CASH ASSISTANCE - IMMIGRANTS	611,254	611,254	-	623,764	623,764	-	12,510	12,510	-
CALWORKS-ALL OTHER FAMILIES	191,880,000	187,770,991	4,109,009	228,225,185	223,207,546	5,017,639	36,345,185	35,436,555	908,630
KIN-GAP PROGRAM	6,984,009	5,896,566	1,087,443	6,161,472	5,135,205	1,026,267	(822,537)	(761,361)	(61,176)
SERIOUSLY EMOTIONALLY DISTURBED	4,761,913	3,781,511	980,402	5,000,301	3,976,989	1,023,312	238,388	156,478	42,910
CALWORKS-2 PARENT FAMILIES	15,674,688	15,322,821	351,867	24,880,956	24,276,491	604,465	9,206,268	8,953,670	252,598
AID TO INDIGENTS	1,181,027	341,471	839,556	1,469,770	451,134	1,018,636	288,743	109,663	179,080
VETERANS AFFAIRS	1,479,719	336,500	1,143,219	1,488,402	349,250	1,139,152	8,683	12,750	(4,067)
HUMAN SERVICES SUBTOTAL:	847,338,998	796,463,890	50,875,108	908,231,114	857,809,984	50,421,130	60,892,116	61,346,094	(453,978)
COUNTY TRIAL COURTS - DRUG COURT PROGRAMS	374,691	374,691	-	157,430	-	157,430	(217,261)	(217,261)	-
COUNTY TRIAL COURTS - GRAND JURY	343,249	-	343,249	388,592	-	388,592	45,343	-	45,343
COUNTY TRIAL COURTS - INDIGENT DEFENSE	9,158,413	-	9,158,413	9,283,413	125,000	9,158,413	125,000	125,000	-
COUNTY TRIAL COURTS - COURT FAC/JUDICIAL BENEFITS	1,786,037	-	1,786,037	1,875,564	-	1,875,564	89,527	-	89,527
COUNTY TRIAL COURTS - COURT FACILITIES PAYMENTS	869,933	-	869,933	869,334	-	869,334	(599)	-	(599)
COUNTY TRIAL COURTS - MAINTENANCE OF EFFORT	32,550,674	21,924,184	10,626,490	35,736,490	25,110,000	10,626,490	3,185,816	3,185,816	-
DISTRICT ATTORNEY - CRIMINAL	59,051,132	35,845,581	23,205,551	66,960,831	40,372,149	26,588,682	7,909,699	4,526,568	3,383,131
DISTRICT ATTORNEY - CHILD ABDUCTION AND RECOVERY	876,549	876,549	-	-	-	-	(876,549)	(876,549)	-
LAW & JUSTICE GROUP ADMINISTRATION	232,951	78,503	154,448	232,161	78,503	153,658	(790)	-	(790)
PROBATION-ADMIN, CORRECTIONS & DETENTION	113,707,485	49,355,959	64,351,526	114,575,390	49,335,486	65,239,904	867,905	(20,473)	888,378
PROBATION-COURT ORDERED PLACEMENTS	3,308,330	-	3,308,330	3,122,330	-	3,122,330	(186,000)	-	(186,000)
PUBLIC DEFENDER	33,823,747	1,400,000	32,423,747	33,823,503	1,308,204	32,515,299	(244)	(93,796)	93,552
SHERIFF	402,004,318	267,018,421	134,985,897	410,866,386	267,508,559	143,357,827	8,862,068	490,138	8,371,930
LAW AND JUSTICE GROUP SUBTOTAL:	658,087,509	376,873,888	281,213,621	677,891,424	383,993,331	293,898,093	19,803,915	7,119,443	12,684,472
PUBLIC AND SUPPORT SERVICES GROUP ADMIN	1,971,766	-	1,971,766	1,977,648	-	1,977,648	5,882	-	5,882
AGRICULTURE, WEIGHTS AND MEASURES	6,517,685	3,921,170	2,596,515	6,589,172	4,075,133	2,514,039	71,487	153,963	(82,476)
AIRPORTS	2,798,296	2,798,296	-	2,826,889	2,826,889	-	28,593	28,593	-
ARCHITECTURE AND ENGINEERING	585,320	-	585,320	585,320	-	585,320	-	-	-
COUNTY MUSEUM	3,911,145	1,753,400	2,157,745	3,644,827	1,520,579	2,124,248	(266,318)	(232,821)	(33,497)
FACILITIES MANAGEMENT	14,465,324	4,827,546	9,637,778	14,344,851	5,039,237	9,305,614	(120,473)	211,691	(332,164)
FACILITIES MANAGEMENT - UTILITIES	17,238,336	258,043	16,980,293	17,754,196	246,082	17,508,114	515,860	(11,961)	527,821
LAND USE SERVICES - ADMINISTRATION	-	-	-	-	-	-	-	-	-
LAND USE SERVICES - CURRENT PLANNING	3,406,036	3,406,036	-	3,335,080	3,335,080	-	(70,956)	(70,956)	-
LAND USE SERVICES - ADVANCED PLANNING	4,064,230	2,328,829	1,735,401	4,149,019	2,424,235	1,724,784	84,789	95,406	(10,617)
LAND USE SERVICES - BUILDING AND SAFETY	10,218,677	10,218,677	-	10,244,406	10,244,406	-	25,729	25,729	-
LAND USE SERVICES - CODE ENFORCEMENT	5,165,959	560,300	4,605,659	4,993,795	560,300	4,433,495	(172,164)	-	(172,164)
LAND USE SERVICES - FIRE HAZARD ABATEMENT	2,867,674	2,867,674	-	2,851,163	2,851,163	-	(16,511)	(16,511)	-
PUBLIC WORKS-SURVEYOR	5,400,409	5,132,271	268,138	5,203,207	4,935,069	268,138	(197,202)	(197,202)	-
REAL ESTATE SERVICES	2,647,980	1,542,667	1,105,313	2,612,928	1,538,500	1,074,428	(35,052)	(4,167)	(30,885)
REAL ESTATE SERVICES - RENTS AND LEASES	101,179	101,179	-	419,311	419,311	-	318,132	318,132	-
REAL ESTATE SERVICES - COURTS PROPERTY MANAGEMENT	437,165	392,165	45,000	382,430	337,430	45,000	(54,735)	(54,735)	-
REGIONAL PARKS	10,088,762	6,729,800	3,358,962	10,036,137	7,246,313	2,789,824	(52,625)	516,513	(569,138)
REGISTRAR OF VOTERS	11,694,748	8,077,133	3,617,615	8,418,890	3,480,870	4,938,020	(3,275,858)	(4,596,265)	1,320,405
PUBLIC AND SUPPORT SVCS GRP SUBTOTAL:	103,580,691	54,915,186	48,665,505	100,969,269	51,080,597	49,288,672	(3,211,422)	(3,834,589)	623,167
GENERAL FUND DEPARTMENT SUBTOTAL:	2,224,787,008	1,701,490,981	523,296,027	2,229,785,664	1,695,055,912	534,729,752	4,998,656	(6,435,069)	11,433,725
CONTINGENCIES	58,098,896	-	58,098,896	72,706,806	-	72,706,806	14,607,910	-	14,607,910
RESERVE CONTRIBUTIONS	14,544,909	-	14,544,909	3,516,125	-	3,516,125	(11,028,784)	-	(11,028,784)
BOARD ELECTIVE PROJECTS	15,812,788	-	15,812,788	2,500,000	-	2,500,000	(13,312,788)	-	(13,312,788)
FINANCIAL ADMINISTRATION APPROPRIATION	7,500,000	7,500,000	-	7,500,000	7,500,000	-	-	-	-
OPERATING TRANSFERS OUT	38,641,140	-	38,641,140	35,869,297	-	35,869,297	(2,771,843)	-	(2,771,843)
TOTAL COUNTYWIDE ALLOCATED COSTS:	134,597,733	7,500,000	127,097,733	122,092,228	7,500,000	114,592,228	(12,505,505)	-	(12,505,505)
GRAND TOTAL:	2,359,384,741	1,708,990,981	650,393,760	2,351,877,892	1,702,555,912	649,321,980	(7,506,849)	(6,435,069)	(1,071,780)

NOTE: Total countywide allocated costs on this schedule includes appropriation and reimbursements for Financial Administration. This appropriation is offset in the countywide discretionary revenue schedule.



GENERAL FUND – FIVE YEAR OPERATING FORECAST, 2008-09 THROUGH 2012-13

The purpose of a five year operating forecast is to provide a framework to be used for decision-making. It is not a budget. It is a question of priorities, not fiscal capacity. The plan identifies key factors that affect our fiscal outlook and assesses how difficult balancing the budget will be. It helps us to understand the fiscal challenges facing the County as we make trade-offs between funding priorities.

This forecast is not a prediction of what is certain to happen but rather a projection of what will occur in the absence of any mitigating actions. As such, this plan highlights significant issues or problems that must be addressed in order to maintain a structurally balanced budget.

Significant Issues Impacting the General Fund:

- Revenue Growth has slowed dramatically due to a steep decline in real estate activity that has affected construction and retail spending. This has significantly impacted the County's property tax revenue as well as the County's sales tax revenue, including Prop 172.
- Salaries and Benefits are projected to increase. This increase is based on current negotiated agreements between the County and employee representation units. In years where no agreement has yet been negotiated, historical trends have been used.
- Retirement costs are anticipated to increase based on increases in salaries which are a factor in the calculation of retirement costs.
- Additional Staffing for the Adult Detention Center Expansion will require a significant amount of financing beginning in 2010-11.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Beginning Financing Available	\$ 2.3	\$ (16.4)	\$ (31.3)	\$ (51.7)	\$ (84.5)
<u>Sources and Needs</u>					
Revenue Growth	12.2	22.6	23.9	34.3	34.7
Increase in Costs:					
Salaries and Benefits	(22.3)	(23.6)	(25.1)	(25.8)	(26.9)
Retirement	(5.0)	(8.2)	(7.1)	(8.5)	(7.6)
Adult Detention Center Staffing	-	-	(6.3)	(26.8)	-
New Judgeships Staffing	(1.9)	-	-	-	-
Other Costs	(1.7)	(5.7)	(5.8)	(6.0)	(5.9)
Ending Financing Available	<u>\$ (16.4)</u>	<u>\$ (31.3)</u>	<u>\$ (51.7)</u>	<u>\$ (84.5)</u>	<u>\$ (90.2)</u>

Due to the projected budget gaps, the uncertain revenue outlook, and operating cost pressures, the County Administrative Office has begun the development of a mitigation plan in order to maintain a structurally balanced budget.



CONTINGENCIES

The County Contingencies includes the following elements:

Contingencies**Mandatory Contingencies**

Board Policy requires the county to maintain an appropriated contingency fund to accommodate unanticipated operational changes, legislative impacts or other economic events affecting the county's operations, which could not have reasonably been anticipated at the time the budget was prepared. Funding is targeted at 1.5% of locally funded appropriation.

Uncertainties

Any unallocated financing available from current year sources (both ongoing and one-time) that has not been set-aside and any unallocated fund balance carried over from the prior year, is budgeted in the contingencies for uncertainties. Final budget action includes a provision that allocates any difference between estimated and final fund balance to this contingencies account.

Ongoing Set-Asides Contingencies

The county budget process differentiates between ongoing and one-time revenue sources. Ongoing set-asides represent ongoing sources of financing that have been targeted for future ongoing program needs.

	2007-08	2007-08	2008-09	2008-09
	Final	Mid-Year Approved	Recommended	Proposed
	Budget	Contributions/ (Uses)	Additional Contributions	Budget
Contingencies				
Mandatory Contingencies (1.5% of Locally Funded Appropriation)	8,582,624		377,419	8,960,043
Uncertainties	14,616,272	(4,961,232)	15,191,723	24,846,763
Ongoing Set-Asides Contingencies				
Future Retirement Costs	7,900,000	(7,900,000)	7,900,000	7,900,000
Jail Expansion	7,000,000	(7,000,000)	7,000,000	7,000,000
Future Space Needs	20,000,000	(20,000,000)	20,000,000	20,000,000
Juvenile Maximum Security			4,000,000	4,000,000
Total Contingencies	58,098,896	(39,861,232)	54,469,142	72,706,806



2007-08 Mid-Year Changes to Contingencies for Uncertainties

For 2007-08 a mid-year Board action authorized a one-time increase to the Contingencies for Uncertainties in the amount of \$1,513,690. This increase was funded by the sale of an easement at the Milliken landfill.

For 2007-08 mid-year Board actions to date have authorized the use of \$6,474,922 of the Contingencies for Uncertainties. These allocations include:

- \$3,300,000 in one-time funding to reimburse the Solid Waste Management division for the County's share of the Disaster Debris Management Program related to the Slide and Grass Valley fires.
- \$1,000,000 in one-time funding to provide funding for economic development activities at the Chino Airport.
- \$547,500 in one-time funding for environmental and engineering services related to the Cajon Creek Levee Alignment and Mitigation Plan at Glen Helen Regional Park and the Sycamore Creek/Sheriff Academy Channel Erosion Control Project.
- \$490,000 in one-time funding for the Mountain Marketing Campaign.
- \$452,000 in ongoing funding to provide the local cost portion of negotiated salary and benefit increases related to the approved memorandum of understanding with the California Nurses Association.
- \$212,047 in ongoing and \$53,000 in one-time funding for supplemental staffing for enforcement of Jessica's Law.
- \$150,000 in one-time funding to fund increased legal services associated with the Superior Court lawsuit of LodgeMakers v. County of San Bernardino, and other specialized counsel.
- \$71,000 in ongoing funding to fund classification actions relating to the reorganization of the Clerk of the Board office.
- \$69,120 in one-time funding to reimburse the Authority for the Handicapped for a receptionist.
- \$45,255 in ongoing funding for a new paralegal position for County Counsel.
- \$30,000 in one-time funding for consulting services related to the preparation of a greenhouse gas emissions reduction plan.
- \$30,000 in one-time funding to pay for background checks of volunteers participating in the County's Community Emergency Response Team (CERT) program in order to enhance the County's response capability in the event of a natural disaster.
- \$25,000 in one-time funding for the purpose of funding expenses related to the 2007 Sheriff's Benefit Rodeo.

2007-08 Mid-Year Changes to Ongoing Set-Aside Contingencies

- Future Retirement Costs Ongoing Set-Aside:

Any unallocated balance in this contingency set-aside at year end will be transferred to the reserve for Retirement pursuant to the County's Budget and Financing Policy.

- Jail Expansion Ongoing Set-Aside:

Mid-year Board actions authorized a one-time use of \$1.9 million of this set-aside to finance the design of the Adelanto Jail Expansion. Any unallocated balance in this contingency set-aside at year end will be transferred to the reserve for Jail Expansion pursuant to the County's Budget and Financing Policy.

- Future Space Needs Ongoing Set-Aside:

Mid-year Board actions authorized a one-time use of \$350,000 of this set-aside to finance an increase in the County Government Center Master Plan Development project and a one-time use of \$1,537,000 to fund the High Desert Government Center project costs through the completion of the design. Any unallocated balance in this contingency set-aside at year end will be transferred to the reserve for Future Space Needs pursuant to the County's Budget and Financing Policy.

2008-09 Mandatory Contingencies

The base allocation to the mandatory contingency budget of \$8,960,043 is established pursuant to Board policy, based on projected locally funded appropriation of \$597.3 million.

2008-09 Ongoing Set-Asides Contingencies

As seen in the Reserves section, the county has set aside a significant amount of one-time money that can assist the county temporarily for unforeseen increases in expenditure or reductions in revenues. Beginning in 2005-06 the county also began to set-aside portions of ongoing funding for future use. In the 2007-08 final budget, the county has set aside ongoing revenue sources to finance future ongoing expenditures in three different areas: retirement, jail expansion and future space needs.

- Future Retirement Costs Ongoing Set-Aside:

For the past few years, the County has seen significant retirement cost increases and predicts additional future increases based on unfunded liabilities that have occurred primarily as a result of lower than expected market returns. Beginning in 2004-05, the Board has set-aside \$7.9 million in ongoing revenue sources to assist in financing these cost increases at a future date.

- Jail Expansion Ongoing Set-Aside:

Beginning in 2005-06, the Board has set-aside \$7.0 million of ongoing money to address the future needs of the County's growing population. In 2006-07, the Board allocated this set-aside to a specific use, increased jail space.

- Future Space Needs Ongoing Set-Aside:

Beginning in 2006-07, the Board has set-aside \$20.0 million to address future space needs. This is based on a building analysis completed by staff. The space needs of the county continue to grow based on expansion of the area and the programs that service the county's growing population.

- Juvenile Maximum Security Ongoing Set-Aside:

Beginning in 2007-08, the Board has set-aside \$4.0 million for the construction of a new Central Juvenile Hall. This \$4.0 million was previously included in the \$19.3 million ongoing contribution to the Capital Improvement Program.

RESERVES

The county has a number of reserves (designations) that have been established over the years. Some are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general purpose reserve are funds held to protect the County from unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the County. On January 6, 1998, the Board of Supervisors adopted a county policy to provide guidelines and goals for reserve levels. That policy calls for the county's general purpose reserve to equal 10% of locally funded appropriation. The Board of Supervisors also established specific purpose reserves to temporarily help meet future needs.

	6/30/07 Ending Balance	Approved 2007-08		6/30/08 Estimated Balance	Proposed 2008-09		6/30/09 Estimated Balance
		Contributions	Uses		Contributions	Uses	
General Purpose Reserve	52,456,025	4,761,467		57,217,492	2,516,125		59,733,617
Specific Purpose Reserves							
Medical Center Debt Service	32,074,905			32,074,905			32,074,905
Future Space Needs	19,600,000	18,113,000 (1)		37,713,000	20,000,000 (2)		57,713,000
Retirement	30,700,000	7,900,000 (1)		38,600,000	7,900,000 (2)		46,500,000
Teeter	17,747,201			17,747,201			17,747,201
Jail Expansion	16,400,000	5,100,000 (1)		21,500,000	7,000,000 (2)		28,500,000
Juvenile Maximum Security	9,392,986	4,548,220		13,941,206	4,000,000 (2)		17,941,206
Capital Projects	4,000,000			4,000,000			4,000,000
Business Process Improvement	564,778	4,235,222	(2,688,000)	2,112,000			2,112,000
Insurance	3,000,000			3,000,000			3,000,000
Restitution	1,865,025		(75,000)	1,790,025			1,790,025
Justice Facilities	119,316			119,316			119,316
Electronic Voting	500,000		(130,000)	370,000			370,000
Moonridge Zoo	3,750,000	1,000,000		4,750,000	1,000,000		5,750,000
Total Specific Purpose	139,714,211	40,896,442	(2,893,000)	177,717,653	39,900,000	-	217,617,653
Total Reserves	192,170,236			234,935,145			277,351,270

(1) Amounts represent ongoing set-asides that are budgeted in the 2007-08 appropriation for contingencies, and not budgeted as Contributions to Reserves. They are included in this schedule because they are projected to remain unspent at the end of the 2007-08 fiscal year. Per County policy unspent ongoing set-asides at the end of the year will be transferred to the corresponding specific purpose reserve.

(2) Amounts represent ongoing set-asides that are included in the 2008-09 proposed budget in the appropriation for contingencies, and not budgeted as Contributions to Reserves. They are included in this schedule because they are projected to remain unspent at the end of the 2008-09 fiscal year. Per County policy unspent ongoing set-asides at the end of the year will be transferred to the corresponding specific purpose reserve.



2007-08 Planned/Approved Contributions

- \$4.8 million approved contribution to the General Purpose Reserve based on the 2007-08 final budget for countywide discretionary revenue which finances locally funded appropriation.
- \$18.1 million planned contribution to the Future Space Needs Reserve representing the 2007-08 ongoing set-aside that is estimated to remain unspent at the end of the 2007-08 fiscal year.
- \$7.9 million planned contribution to the Retirement Reserve representing the 2007-08 ongoing set-aside that is estimated to remain unspent at the end of the 2007-08 fiscal year.
- \$5.1 million planned contribution to the Jail Expansion Reserve representing the 2007-08 ongoing set-aside that is estimated to remain unspent at the end of the 2007-08 fiscal year.
- \$4.5 million approved contribution to the Juvenile Maximum Security Reserve from Probation Department savings in 2006-07.
- \$4.2 million approved contribution to the Business Process Improvement Reserve.
- \$1.0 million approved contribution to the Moonridge Zoo Reserve.

2007-08 Approved Uses

- \$2.7 million from the Business Process Improvement Reserve. Final budget reserve allocations include \$0.4 million to the Assessor for phone system upgrades and development of mobile appraisal capabilities, \$0.2 million for Public Health web services improvements, \$0.3 million to convert four branch libraries from barcode to radio frequency identification technology, and \$1.4 million for a Sheriff Laboratory information management system.
- \$75,000 from the Restitution Reserve to fund legal services related to the recovery of funds involving corruption activities of former employees, officers and private individuals.
- \$130,000 from the Electronic Voting Reserve for the Registrar of Voters remodel project.

2008-09 Proposed Contributions and Uses

For 2008-09 the general purpose reserve is increased by \$2.5 million to conform to Board policy. This increase is based on projected locally funded appropriation of \$597.3 million and will bring the balance of the general purpose reserve to \$59.7 million. The Moonridge Zoo reserve is increased by \$1.0 million.

The chart on the following page shows recent history of the County Reserve levels.

	County Reserves History					Estimated	Proposed
	Year End Actual Balances						
	2002-03	2003-04	2004-05	2005-06	2006-07		
Total General Purpose Reserve	31.9	34.8	37.2	41.7	52.5	57.2	59.7
Specific Purpose Reserves							
Medical Center Debt Service	32.1	32.1	32.1	32.1	32.1	32.1	32.1
Future Space Needs				-	19.6	37.7	37.7 (2)
Retirement	7.0	7.0	7.0	14.9	30.7	38.6	38.6 (2)
Teeter	19.3	19.3	19.3	17.7	17.7	17.7	17.7
Jail Expansion (formerly Future Financing)				7.0	16.4	21.5	21.5 (2)
Juvenile Maximum Security	1.5	1.5	1.5	5.7	9.4	13.9	13.9 (2)
Capital Projects Reserve	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Museum's Hall of Paleontology		0.9	1.7	3.7	-	-	
Business Process Improvement			3.0	2.5	0.6	2.1	2.1
Insurance	5.0	3.0	3.0	3.0	3.0	3.0	3.0
Restitution	2.1	2.1	1.6	1.9	1.9	1.8	1.8
Justice Facilities	4.9	3.7	1.3	0.6	0.1	0.1	0.1
Electronic Voting System	5.7	-	0.5	0.5	0.5	0.4	0.4
Moonridge Zoo					3.8	4.8	5.8
L&J Southwest Border Prosecution Initiative		3.4	1.9	1.7	-	-	
Equity Pool	1.9	4.4	3.5	1.5	-	-	
Bark Beetle	-	1.8	1.7	-	-	-	
Unified Property Tax System						-	
Total Specific Purpose Reserves	(1) 83.4	83.1	82.0	96.9	139.7	177.7	178.7 (2)
Total Reserves	(1) 115.3	118.0	119.2	138.6	192.2	234.9	238.4 (2)

(1) Totals may not add due to rounding

(2) The 'Proposed 2008-09' column of this schedule includes only those reserve allocations included in the proposed budget.

Amounts differ from the Total Reserves detail schedule presented on the previous page. The Total Reserves detail schedule presents estimated June 30, 2009 reserve levels, which includes estimates of final transfers of unspent ongoing set-asides to the corresponding reserve prior to fiscal year-end.

